DO TAX CREDITS HELP PROMOTE HOMEOWNERSHIP?

AN ANALYSIS OF BALTIMORE CITY'S HOMEOWNERSHIP TAX CREDIT PROGRAMS

Prepared for the Baltimore Economic & Efficiency Foundation
By AB ASSOCIATES
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EXECUTIVE SUMMARY

Across the country, governments are developing strategies to increase their tax base, raise housing values, strengthen communities and market the advantages of city living. These strategies often include incentive packages that provide substantial property tax relief for designated forms of housing and economic development.

Examples of these incentives can include tax credits, low interest loans, grants, payment in lieu of taxes (PILOTS) and tax abatements. These types of incentives tend to be most effective when they are part of a larger vision that incorporates community and economic development goals, quantifiable objectives, strategies that include recognizing the importance of integrating financial strategies with marketing techniques and an evaluation framework that incorporates both quantitative and qualitative measures.

Baltimore City has made five tax credit programs available to encourage homeownership and stabilize neighborhoods:

- Newly Constructed Dwellings Tax Credit
- Historic Property Rehabilitation Tax Credit
- Home Improvement Tax Credit
- Rehabilitated Vacant Dwellings Tax Credit
- Waverly Stabilization Tax Credit

These programs offer a credit against an individual's property tax over a five- to ten-year period. The parameters of each tax credit are established through legislation. Only the Newly Constructed Dwellings Tax Credit is evaluated annually. There has not been a comprehensive analysis of these tax credits as a stimulus in promoting economic development or an evaluation of their effectiveness in promoting homeownership or stabilizing neighborhoods.

In 2001, the Baltimore Economic and Efficiency Foundation (BEEF) retained AB ASSOCIATES, a private strategic planning firm, to analyze the City's homeownership tax credit programs and to suggest ways these programs could become more effective. BEEF is a private, nonprofit organization established in 1998 that engages citizens in developing innovative strategies to facilitate the revitalization of Baltimore City. BEEF's primary activity is conducting independent reviews of various aspects of Baltimore City government's management, operations and fiscal and tax policy. While it was recognized that recommendations might include new sources of funding, it was beyond the scope of this study to identify what those sources might be. In many instances, however, consolidation of existing efforts and resources are likely to prevent the City from tapping into an already strained financial base

Two questions lay at the heart of this analysis:

1. How effective are the tax credit programs?
2. What marketing and administrative recommendations could be offered to improve the programs' effectiveness?

The analysis consisted of three components:

1. A review of existing tax credit data.
2. Interviews with representatives of city agencies, private organizations and historic tax credit users.
3. Reviews of similar programs in other cities.

AB ASSOCIATES reviewed data that was provided by the Collection Division of the Finance Department, Finance Department, Commission for Historical and Architectural Preservation (CHAP), Baltimore City Homeownership Institute and through the web sites of the State Department of Assessment and Taxation (SDAT) and the Live Baltimore Marketing Center (LBMC). Calculating and reporting functions are managed by the Collection Division, which provides annual reports detailing the property address and amount of credit given from July 1 to June 30 of each fiscal year. Additionally, CHAP maintains records for the Historic Property Rehabilitation Tax Credit, although the staff considers that information confidential. The Department of Housing and Community Development (HCD) monitors the Waverly Stabilization Tax Credit. Annual reports were available upon request from the Collection Division. The SDAT Real Property Database was used to compare values of nearby properties as part of the analysis for the Home Improvement and the Vacant Rehabilitated Dwellings Tax Credits.

Records were reviewed for total credits granted, average and median tax credit amounts, geographic location and impact on local housing values. Because data was received from multiple sources, there are some inconsistencies and discrepancies in reporting procedures that made providing a uniform analysis difficult. Relying on the Finance Department to prepare reports presents a risk that conclusions will be biased against continuing, modifying or introducing new types of tax credits. The Department's concerns regarding a declining revenue base and the consequences for essential services such as police, fire and schools are understandable. However, this type of argument tends to overlook the long-term value that tax credits can add both through incremental increases to the property tax rolls, increased property values that result when neighborhoods are stabilized and improved and the psychological value of seeing a neighborhood be revitalized. Therefore two potential administrative changes could be to develop consistent and regular reporting requirements that would provide a uniform information base for future analyses and assigning the reporting function to another agency.

AB ASSOCIATES also interviewed city officials, real estate professionals and tax credit customers to qualitatively assess the effectiveness of the tax credit programs. Interviewees were asked to address four subject areas:

- Are tax credits effective?

- How are tax credits used, marketed and perceived?
- What could be done to make existing tax credits more effective?
- What new types of incentives should the City consider?

AB ASSOCIATES researched incentive programs in other cities with similar demographics to Baltimore, such as Cleveland, as well as cities noted for their innovative housing initiatives such as Philadelphia and Portland. This research was followed-up with telephone interviews to obtain more detailed information about the programs' effectiveness, rate of use, user demographics and impact on housing values. Many of the officials interviewed were unable to supply data due to its proprietary nature, thereby implying that their opinions regarding success rates were largely subjective.

Based on our interviews, data analysis and similar incentives in other cities, AB ASSOCIATES concluded that the tax credits could play a much stronger role in neighborhood revitalization efforts and in attracting new residents to the City. This is largely attributed to the lack of a coordinated marketing effort that reflects a comprehensive vision about the role tax credits can play in the overall revitalization and stabilization of the City. Subsequently, there are no coordinated strategies that utilize the credits as a community development tool, quantitative guidelines by which to measure its success, or cross-promotional efforts. Nor are there efforts to combine the tax credits with existing financial incentives such as low interest loans or grants that could increase their usage rate and therefore enhance their effectiveness. One repeated argument was the notion that tax credits were ineffective in a jurisdiction that continued to exhibit declining revenue trends. While this argument may hold short-term merit, it overlooks the long-term impact of creating incremental value and the ability to use these types of incentives to change the fundamental character of a neighborhood as well as preventing older neighborhoods from becoming destabilized.

Closely related to the question of using property tax credits in cash-strapped cities is the notion of relying more heavily on Federal and State income tax credits. In several instances when the Historic Property Rehabilitation Tax Credit was used, the value of the income tax credit was significantly greater than the value of the property tax credit. Income tax credits have the added advantage of reducing an individual's overall tax liability, however, property tax credits provide an important psychological advantage of reducing the disparity between City and County tax rates. It may benefit the City to further study the comparative value of these two types of credits and under what scenarios each one is more advantageous and when it is appropriate to combine the two.

The Newly Constructed Dwellings Tax Credit and the Historic Property Rehabilitation Tax Credits were believed to be the most effective of the five programs offered by the City. A developer's ability to market the tax credit to prospective buyers was identified as the key to the Newly Constructed Dwellings Tax Credit's success, and was believed to be a significant factor in influencing the decision by buyers at both the Woodlands at Coldspring and Spicer's Run developments.

The Historic Property Rehabilitation Tax Credit was believed to be most effective in essentially stable neighborhoods where residents have the capacity to meet the program's cash requirement and the ability to undertake substantial renovations. One obstacle associated with the Historic Property Rehabilitation Tax Credit is the ability of the purchaser to easily identify eligible properties. This is part of a larger problem where a general lack of technology reduces the effectiveness of the credit, and which will be discussed in greater detail as part of system and administrative changes.

The Rehabilitated Vacant Dwellings Tax Credit and the Waverly Stabilization Tax Credit were generally regarded as the weakest of the tax credit programs. The former failed due to its lack of integration with grants and low interest loans and inability to encourage large-scale redevelopment. The Waverly program, which was intended as a pilot program, demonstrated the importance of selecting neighborhoods that were essentially stable rather than relying on using the tax credit as the primary stabilization tool.

This report set out to answer the question: Do the City's tax credit programs fully promote and stimulate homeownership? Simply put, the answer is no. Remedying these problems will require changes in the way the City thinks about the value of tax credits, their use as a development tool, how they are packaged and their ability to be more broadly understood and utilized by a variety of constituencies. Tax credits alone cannot be expected to solve the real and perceived challenges faced by Baltimore as it continues to rebuild and redefine its neighborhoods, economic base and quality of life.

The recommendations that follow are organized around the major issues that were revealed during our analysis and interviews. Several represent a compilation of ideas; others are ideas to improve a specific aspect of a program. Baltimore has historically adopted innovative public policy programs; the myriad of these programs are a testament that the time has come to implement a systematic consolidation to increase their efficiency and effectiveness.

RECOMMENDATIONS

This report set out to answer the question: Do the City's tax credit programs fully promote and stimulate homeownership? Simply put, the answer is no. This should not be attributed to the tax credits themselves, but rather to two factors: inconsistent and haphazard marketing efforts and a lack of uniform reporting requirements and accountability standards.

Remedying these problems will require changes in the way the City thinks about the value of tax credits, their use as a development tool, how they are packaged and their ability to be more broadly understood and utilized by a variety of constituencies. The recommendations that follow are organized around the major issues that were revealed during our analysis and interviews. Several represent a compilation of ideas; others are ideas to improve a specific aspect of a program.

ADMINISTRATIVE

1. **Use the continuation of the Newly Constructed Dwellings Tax Credit to close the gap between City and County tax disparities**. House Bill 125 extends the Newly Constructed Dwellings Tax Credit through June 2005. This presents the City and its partners with an ideal opportunity to develop a strategy that integrates the Mayor's Vacant House Initiative, provides extensive outreach to developers and complements efforts underway by existing organizations.

2. **Introduce uniform reporting requirements for all of the tax credit programs**. Currently, only the Newly Constructed Dwellings Tax Credit legislation includes an annual reporting requirement. The City should immediately require an annual report for each of the tax credit programs. At a minimum, these requirements should include:

    - number of credits approved
    - annual and cumulative value of the credit
    - impact on surrounding residential values

    As part of this process, the reporting requirements for the Newly Constructed Dwelling Tax Credit should be revised to include average and median sales prices. This will provide a more accurate picture of the credit's effectiveness. In addition, data should be collected to determine how the use of tax credits affects values in surrounding areas and what other types of investment results from the tax credits.

3. **Reassign the reporting on tax credit usage**. Legislation should be amended to transfer the reporting function to an agency that may be able to present a more balanced look at the tax credits, including their long-term benefits and their effect on stimulating spin-off development.

4. **Provide one central contact for the City.** In conjunction with strengthening LBMC's role, the City should designate one agency that acts as a liaison with LBMC, the general public and for coordinating efforts between those agencies that are involved with the tax credit.

5. **Use Citistat to map locations where the tax credits are used.** One of the difficulties in determining the tax credit programs' effectiveness is the lack of visual tools, such as maps, that make it easier to determine where tax credits are used, if there is a clustering of applications that may have potential marketing implications or if there are higher rates of usage due to other incentives. The City should use its Citistat capabilities to map this information on a regular basis and allow it to become the foundation for developing and evaluating marketing strategies.

6. **Link historic properties to computerized mapping systems.** The database being developed by LBMC should be integrated with the City's GIS system, LBMC's existing neighborhood maps and other computerized mapping systems. Ultimately, this effort should be expanded to expand SDAT's link with Maryland Regional Information System (MRIS) to include Baltimore City properties that will result in an integrated database in the form of a MRIS, which includes regional real estate listings. This is a long term project that will require coordinating with SDAT, Maryland Historical Trust and MRIS and most important the identification of a central contact that can be responsible for coordinating and planning how these databases will be linked and the types of information that should be included. In addition to identifying location, maps should link to neighborhoods, information about schools and transportation, permitting requirements and resources such as contractors and architects.

7. **Coordinate public and private involvement.** City, State and private agencies should, at a minimum, meet annually to review their experiences with tax credit incentives, including marketing expectations, customer service and improving usage.

8. **Expand the Live Baltimore Marketing Center's role.** LBMC's role could be expanded so that it becomes the primary contact and technical assistance provider for all of the tax credit programs. Additional activities could include: working with City and private agencies to develop a comprehensive and integrated marketing strategy, organizing workshops for realtors, developers, homebuyers, community associations and homeowners, contacting realtors on a regular basis to let them know which of their listings are tax credit eligible, providing more detailed web pages to include sample forms, examples of how a tax credit is applied against a tax bill and financial resources, technical assistance in completing an application and compiling required documentation. This would allow LBMC to act as the central contact for the City for all programs. LBMC could also be responsible for implementing an evaluation process that included a quantitative analysis, user surveys and inter-agency reviews.

9. **Evaluate income tax credits as both an alternative and a supplement to property tax credits.** One of the Waverly Stabilization Tax Credit's stronger features was its use of the State income tax that equaled the property tax. If marketed and packaged properly, income tax credits can be an especially strong incentive to revitalizing and increasing homeownership in targeted neighborhoods.

PACKAGING & PRODUCT DEVELOPMENT

1. **Combine tax credits with cash incentives to increase their effectiveness in selected neighborhoods.** Neighborhoods where tax credits could have a significant impact are believed to be the ones that have the lowest participation rates. This includes largely outer city neighborhoods such as Hamilton, Greektown and Forest Park. One reason for low participation rates may be a homeowner's lack of access to cash. By combining tax credits with low interest loans or grants that can be forgiven and guaranteeing the property's assessed value based on the model developed by the Patterson Park Neighborhoods Initiative, tax credits can be more effective in achieving their original goal of stabilizing and increasing property values. It will be important that this type of product is targeted to neighborhoods where there can be a demonstrated impact and should also include historic neighborhoods to help residents meet the 25% cash requirement. Criteria used to determine neighborhoods could include sales values, assessments, community association structure and permit data.

2. **Encourage wholesale improvements.** Tax credits, such as the Home Improvement Tax Credit, have the greatest neighborhood impact when used on a wholesale basis. One way to encourage blocks to undertake this type of improvement is by negotiating discounts with suppliers in return for volume order.

3. **Incorporate tax credits as part of the City's neighborhood typology efforts.** The Planning Department is preparing a neighborhood typology, based on "Plan Baltimore," the City's comprehensive plan that classifies neighborhoods into four areas based on their level of stability: preservation areas, stabilization areas, reinvestment areas and redevelopment areas. The goal of the typology is to allocate resources more effectively. Tax credits should be included in the resource pool and further enhanced with grants and loans.

4. **Develop a compendium of resources.** One deterrent to using the tax credits is identifying the resources required to undertake improvements. Homeowners that might be encouraged to undertake improvements or renovate a vacant dwelling frequently experience uncertainty in selecting architects and contractors. Developing a program that gives certain architects and contractors preferred status in exchange for discounted rates could help alleviate this uncertainty by providing a known and reputable pool of service providers.

5. **Provide worksheets demonstrating how credits positively effect a tax bill.** As part of a larger marketing effort, worksheets should be available that demonstrate how each of the tax credits impact a tax bill. This could be made available on-line to help potential users calculate the value of their credits.

PROMOTIONS, PUBLICITY AND AWARENESS

1. **Make information consistent and uniform.** Information that is available on the tax credit programs is not uniform. For instance, important regulations, such as an annual application requirement for the Rehabilitated Vacant Dwelling Tax Credit is not listed on the LBMC website. Instead, the user is referred to the City's Homeownership Institute for additional information. Consistently including all regulations reduced misperceptions regarding program benefits in addition to meeting most individuals' needs to receive information in an efficient fashion.

2. **Distribute information more broadly.** Reports and other information regarding tax credits should be shared with all those involved in its marketing or administration, in both the public and private sector. This information should also be posted on the City and LBMC's web sites. In addition, a brochure rack should be part of the redesign of the permit office into a one-stop shop for homeownership assistance information.

3. **Incorporate survey efforts of LBMC and the Finance Department.** The Finance Department conducts an annual survey of recipients only of the Newly Constructed Dwellings Tax Credit. LBMC conducts a Follow-up Survey of Home-Buying Fair and Trolley Tour participants. Surveys should be modified to include uniform demographic questions to provide more consistent information regarding actual and potential homebuyers. LBMC should consider including questions to determine a prospective buyer's awareness of the tax credits and their interest in obtaining additional information or assistance. The Finance Department should also consider adding questions to determine how a purchaser learned about a tax credit as well as other incentives that might be available.

4. **Make applications available online.** All applications should be available on the Internet. This has the potential to increase usage rates by making information more accessible.

5. **Work with the State Department of Assessments and Taxation to expand general awareness of the tax credits.** The State's real property database should be integrated with City systems to more easily identify eligible historic tax credit properties as well as those properties that are currently receiving a credit.

6. **Work with the Greater Baltimore Board of Realtors to develop an ongoing outreach strategy with the real estate community.** Examples could include:
   - notification of members when a new historic district is approved.
   - notification of grant and loan opportunities that could be combined with credits.
   - contacting individual realtors to let them know which of their listings are tax credit eligible.

- work with the Maryland Regional Information Systems (MRIS) to include tax credit eligibility on historic properties and with the media and real estate companies to structure advertisements in a way that allows tax credits to be used in their advertising strategies.

7. **Work with the Home Builders Association to develop an outreach strategy.** In addition to traditional techniques such as a newsletter column and e-mail alerts, a special effort should be made to encourage developers to invest in Baltimore City, such as a repeat of the recently sponsored HCD tour of development opportunities.

8. **Combine development and tax credit opportunities.** This could include a report of the recently sponsored HCD tour with an emphasis on neighborhoods with high rates of deteriorating or vacant housing.

PLANNING

1. **Incorporate tax credits as part of a larger marketing strategy.** Tax credits should be an important part of an overall strategy that focuses on attracting and retaining homeowners, attracting new developers and stabilizing existing neighborhoods.

In addition to the above, the following are recommendations related to the specific programs:

REHABILITATED VACANT DWELLINGS TAX CREDIT

1. **Amend the Rehabilitated Vacant Dwellings Tax Credit to include developers and CDC's.** This tax credit should be the centerpiece of efforts to encourage wholesale revitalization for ownership and market rate rental efforts. A modified tax credit would ideally offer two components. Developers would be entitled to a State income tax credit that could be used to offset what are frequently higher development costs. Homebuyers would be entitled to a property tax abatement to help develop a market in what are traditionally underserved or overlooked areas. This type of amendment would work best if incorporated into a larger incentive package that addressed issues associated with title clearance and parcel assemblage. Additionally, CDC's should be entitled to file any unused portion of the credit for a cash refund, similar to the historic tax credit. In order to further stimulate development, this extended tax credit could apply to targeted areas where the Administration is interested in fostering development.

2. **Extend the duration of the tax credit.** The costs associated with significant rehabilitation are generally so high that extending the length of the tax credit may make more projects feasible for a wider variety of homeowners.

3. **Repeal the regulation requiring that an application be filed annually.** Requiring that an application be filed annually in order to receive the Rehabilitated Vacant Dwellings Tax Credit could be a deterrent to encouraging use of the program. Additionally, it is likely that recipients do not receive the full benefit of the tax credit, due to missing the application deadline.

NEWLY CONSTRUCTED DWELLINGS TAX CREDIT

1. **Combine the Newly Constructed Dwellings Tax Credit with focused revitalization efforts.** This should include a partnership between the developer, community associations and City and State agencies so that adjacent properties in need of improvement are undertaken at the same time. Similarly, this strategy should also address quality of life issues such as neighborhood planning that impact a purchasing decision and how the community is perceived.

2. **Provide a more detailed analysis of using this tax credit with subsidized housing.** One of the conclusions drawn by the Finance Department’s Annual Summary was that a high percentage of recipients fell into the category of low- and moderate-income buyers. Homes that were purchased were already receiving substantial public subsidies, thereby offsetting tax benefits. A more detailed analysis should be provided that compares the level of public subsidy tax credit against the tax benefits. The methodology should also evaluate tax benefits received with subsidies against the benefits received if the development were not built. The evaluation should address the changes in property values in the area in order to determine if tax credit usage had an effect. The Department should also evaluate the probable condition of the area without the project in order to compare it to the state of the neighborhood once the project has been undertaken and/or completed.

3. **Evaluate extending the tax credit period.** Portland and Cleveland have experienced considerable success with their tax credit programs by allowing a ten-year abatement period. City officials should be encouraged to evaluate the benefits of extending the Newly Constructed Dwellings Tax Credit to a ten-year period as a way to further equalize the discrepancies between City and County taxes.

HISTORIC PROPERTY REHABILITATION TAX CREDIT

1. **Provide low interest loans to encourage greater use of the Historic Property Rehabilitation Tax Credit in less affluent neighborhoods.** During the interviews, it was noted that historic neighborhoods with a less affluent population were less likely to take advantage of this tax credit based on residents’ inability to meet the requirement that the rehabilitation cost meet or exceed 25% of the property’s value. By offering low interest loans, reduced rates on contractors and other incentives, it is likely that participation rates in these neighborhoods could be increased and the

housing stock would be preserved. In addition, CHAP could administer a loan program designed to maintain homes and stabilize housing values.

2. **Restructure requirements so the tax credit is granted when values do not increase.** One deterrent to using the tax credit is that it only becomes eligible if there is an increase in a property's assessment. This may discourage homeowners who live in neighborhoods where property values are flat or depressed.

3. **Provide trended data.** CHAP currently provides annual data on the number of applications that have been received, the value of the improvements and the value of the tax credit. Trended data would provide a more effective analysis of where the program is being used and its fiscal impact. Additional useful information could include assessment values and resale prices where appropriate.

HOME IMPROVEMENT TAX CREDIT

1. **Integrate the tax credit as part of a broader financial incentive program.** As with the Historic Property Rehabilitation Tax Credit, the Home Improvement Tax Credit is less likely to be used where it could have the greatest impact, namely neighborhoods that are in varying stages of deterioration. By including the tax credits as part of a comprehensive financial package, and by providing resources such as contracting and architectural resources, it is likely that these neighborhoods will experience increased property values and rising homeownership rates.

PROGRAM ASSESSMENT

Newly Constructed Dwellings Tax Credit

The Newly Constructed Dwellings Tax Credit (Ordinance No. 464) became effective in February 1995. The intent of this legislation was to attract and retain middle class homeowners in Baltimore City. This is a five-year tax credit that provides a 50% tax credit in the first year, decreasing by 10% increments to a 10% tax credit in the fifth year. This credit applies to permits issued for residences after October 1, 1994.

The original legislation was to expire in June 2000, but was renewed by Ordinance No. 588. It is due to expire again on June 30, 2002. House Bill 125 was introduced in the 2002 Maryland General Assembly and extended the program until June 2005. The bill, which passed third reader, retains the existing levels of the credit.

To qualify for the tax credit, an individual is required to purchase a newly constructed dwelling that becomes their principal residence. A newly constructed dwelling is defined as a residence that has not been occupied since construction or a vacant property with a maximum of four units that has been vacant or abandoned for one year. It also includes property owned by the City for at least one year and in need of substantial repair in order to comply with applicable City codes. The tax credit application must be filed a maximum of 90 days after settlement along with a copy of the building permit, notarized copy of the settlement worksheet and City application form. The application asks if a State income tax return has been filed, but does not require a copy to be submitted. (Appendix A)

One of the initial uses of the program was Montgomery Square in Federal Hill. After the original legislation became effective, the developers for Montgomery Square sought an amendment to include their development, which did not originally qualify for the tax credits under the initial permit deadline. The developers successfully amended the State's enabling legislation to include a retroactive exception for permits issued before October 1 but after July 1, 1994. This amendment allowed a 30% tax credit allocated over three years. Approximately 34 Montgomery Square properties qualified, receiving a total of $55,670 in tax credits for the 1999 and 2000 tax years or an average credit of $818 per dwelling unit.

Between FY96 and FY01, the City issued a total of 629 credits representing $1,421,196 in tax credits. These are summarized as follows:

Fiscal Year	Annual Applications	Cumulative Applications	Annual Tax Credit	Cumulative Tax Credit
1996	30	30	$20,925	$20,925
1997	114	144	$133,333	$154,258
1998	111	255	$229,663	$383,921
1999	122	377	$309,237	$693,158
2000	149	526	$314,317	$1,007,475
2001	103	629	$413,721	$1,421,196

The enabling legislation also requires the Director of Finance to submit an annual report to the Mayor and Board of Estimates that analyzes the public costs and benefits of the tax credit. The legislative requirements of this report include:

- Establishing baseline data on new residential construction, housing tenure and net migration trends.
- Measuring the baseline data against the costs and benefits of the tax credit, including administrative costs.
- Estimates of benefits from property income and transfer tax revenues.

Reports are available for FY99, FY00 and FY01 and include information on building permits, tax credits and the results of a questionnaire that was sent to tax credit recipients to gauge program awareness, usefulness and influence on the purchasing decision. The unfavorable consideration that the tax credits received is due in part to the Finance Department's bias against tax credits that is likely to influence many of the findings that are described below. While their concerns are understandable in light of shrinking city and state revenue sources, AB ASSOCIATES believes that the arguments against the tax credits may be short-sighted in overlooking the long-term value that tax credits can add both through the incremental increases to the property tax rolls, increased property values that result when neighborhoods are stabilized and improved and the psychological value of seeing a revitalized neighborhood.

The reports consisted of two parts: an analysis of the tax credits and other data such as building permits and the results of a survey. The Finance Department generally concluded that the tax credits failed to achieve their objective of increasing middle-income homeownership, based on four findings:

1. The credits did not play a significant role in influencing the purchasing decision.
2. The credit did not play a significant role in encouraging the development of new, middle class, market-rate housing.

3. Based on the disproportionate number of credits approved for low- and moderate-income buyers, the program did not achieve its original objective of retaining a middle class tax base. Low- and moderate-income is defined as 60-80% of the Area Median Income.
4. During the program's first year of operation, the Finance Department spent $75,000 on initial marketing efforts that included media briefings, brochures targeted to homeowners and other direct mailings to homeowners, realtors and community groups. In the FY00 report it was noted that publicity had been integrated into HCD's promotional efforts for the City's Homeownership Institute but that additional efforts should be made to work with commercial real estate interests. This recommendation was further supported by the questionnaire, which found that the majority of applicants learned about the tax credit through a realtor or developer.

The report also suggested that marketing efforts should be more fully integrated with organizations such as the Home Builders' Association and the Greater Baltimore Board of Realtors and other similar organizations.

Questionnaire results reinforced the need for an enhanced marketing effort. The FY96-98 summary concluded that 58% of buyers had no prior knowledge of the tax credit before purchasing their home. This figure increased to 73% in the FY00 report, and decreased to 71% in the FY02 summary. In addition, less than 25% of purchasers in all of the summary reports felt that the tax credit impacted their purchase decision. The responses to the questionnaire indicate that there are other factors attracting new residents to the City, which should be examined further. In the FY01 summary, 38% of respondents and 33% of the respondents in the FY02 summary were aware of the credit, but could not estimate the financial benefit that they received. There were no questions determining if the impact of the credit on a monthly payment influenced the purchase decision.

The Finance Department's reports also found that the tax credit did not contribute to an increase in net migration figures. For example, the FY02 Summary Report noted that, of those individuals using the tax credit, 74% of purchasers had confined their housing search to the City, and would have purchased in the City without the added benefit of an incentive. Only 22% of those who responded to the survey were new City residents, which was approximately 13% less than in previous surveys. This question fails to take into account the psychological impact that this credit can have when a potential buyer compares Baltimore's tax rates with the surrounding jurisdiction.

These questions also fail to take into account the psychological impact that this type of credit has on a developer's decision to build in the City, as well as whether the impact that a tax credit might have on a monthly payment was an important factor in making the purchase decision. The significant number of buyers' inability to estimate the financial benefit they received from the credit reinforces the need for additional and ongoing educational and technical assistance.

As part of its reporting methodology, the Finance Department compared residential building permits filed before 1995, when the Newly Constructed Dwellings Tax Credit became law, to those filed in subsequent years. According to building permit data for new housing construction maintained by the Baltimore Metropolitan Council (BMC), an average of 307 annual permit applications for new single-family homes were filed during the 1980's. Between 1990 and 1994, this average dropped 22% to 169 annual average permits. Between 1996 and 2000 a total of 547 permit applications were filed, representing an annual average of 132 permits. In 2000 this number increased slightly to 174 annual permits.

BUILDING PERMITS FILED 1990-2000	
YEAR	**NUMBER FILED**
1990	109
1991	244
1992	77
1993	165
1994	197
1995	245
1996	93
1997	73
1998	152
1999	55
2000	174

Of greater concern to the Finance Department were the multiple levels of subsidies that the tax credit was providing. According to the Department, over half of the buyers that applied for the tax credit met the criteria for low- and moderate-income and were purchasing homes already receiving a substantial subsidy, such as Pleasant View Gardens and the Townes at the Terraces. The FY00 report, while not providing specific numbers, stated, "credits were given to a high percentage of owners purchasing already highly subsidized low-moderate income housing." In FY01, two-thirds of those receiving the tax credit purchased housing that received other forms of subsidies and in FY02 over half of new residents moving into the City and receiving the credits were classified as low- to moderate- income purchasers that were not influenced by the availability of the tax credit**.** From the Finance Department's perspective this not only defeated the legislative intent of encouraging middle class housing, but more importantly raised the question of how much, if any, additional subsidy should be available when other subsidies were already in place.

In reaching these conclusions, the Finance Department did not appear to analyze these trends or their implications within a regional economic, planning or policy context. Their analysis fails to discuss or recognize the policy issues that were shaping the City's planning initiatives. For instance, the report failed to mention the former administration's policy of promoting low- to moderate-income housing, which tends to require large levels of subsidy and the effect that this had on their analysis. Further, this conclusion fails to address the effect this credit can have in jump-starting a market, as was the experience with Spicers Run, or the possibility that it is better to subsidize developments with the goal of building community value over time. While many of the projects that received tax credits also received substantial subsidies including the two HOPE VI projects, Pleasant View Gardens and the Townes at the Terraces, as well as Sandtown Winchester, it is equally important to acknowledge that these were communities with excessively high rates of vacancies, deteriorating housing stock and severe social problems including homelessness and addiction. The decision to rebuild these communities through homeownership was based on the belief that by de-concentrating poverty and creating homeownership opportunities, neighborhoods would regain their value and ultimately could become attractive to middle class homeowners who were interested in returning to the City.

Even with this type of incentive, average sales prices for City real estate transactions remained far below the regional average. For instance, in 1995 Baltimore City's average sales price was $73,718. In Baltimore County the average sales price for 1995 was $131,779. And, while the City generally benefited from the real estate boom that was apparent throughout the late 1990's, prices continued to lag behind its regional counterparts. Between 1995 and 2000 the average sales price in Baltimore City increased from $73,318 in 1995 to $82,228 in 2000. In Anne Arundel County the average sales price increased from $166,200 in 1995 to $206,155 in 2000. In Howard County the average sales price increased from $171,870 in 1995 to $212,721 in 2000.

While these types of comparisons are important for their regional planning significance, it is important not to overlook price increases and trends within the City that exceed the average figures for certain properties recently using this tax credit. These include a $275,900 purchase price for 6217 Green Meadow Way in Cheswolde, $145,337 purchase price for 405 Chadford Road in the Villages of Homeland, and $282,483 for 2113 Essex Street in Canton. These and similar sales indicate that the legislative intent of attracting middle-class buyers may be being achieved.

Despite the Finance Department's conclusions, the development community feels that the Newly Constructed Dwellings Tax Credit program is a success by leveling the playing field between tax rates in the City and the surrounding counties. The program is hindered only by the low number of units that are on the market. This does not indicate that the program, in and of itself, will not encourage homebuilding. By taking on marketing responsibility and acting as a middleman with the City, the developer has made the process consumer friendly. In the case of two middle-income developments, Coldspring at Woodlands and Spicers Run, this tax credit was instrumental in reaching sales goals and played a strong role in the decision to purchase a home.

Future success of the Newly Constructed Dwellings Tax Credit is clearly linked to the City's strategy to attract developers and new investment. The tax credit should be regarded as the City's best opportunity to compete with suburban products by offering an opportunity to help developers lower costs. Those interviewed recommended developing a stronger relationship with the City and State chapters of the Home Builders' Association and in particular using the tax credit as the centerpiece for a marketing effort targeted to small and mid-size development companies**.** Additionally, it was suggested that the City also needed to reevaluate its outreach strategies to developers. For instance, it was noted that information about tax credits is not included in developers' packages, and that City officials frequently convey the attitude that the market does not need the type of assistance that a tax credit can provide.

<u>Historic Property Rehabilitation Tax Credit</u>

The Historic Property Rehabilitation Tax Credit was passed in January 1996 (Ordinance No. 668) and was intended to preserve neighborhoods by encouraging commercial and residential rehabilitation of significant historic structures. This is a ten-year property tax credit that is granted on the increase in property taxes that directly results from eligible improvements. In order to be eligible for the credit, the total rehabilitation cost must equal or exceed 25% of the property's full cash value prior to rehabilitation. For instance, if a property's cash value were $80,000, improvements would be required to represent a minimum $20,000 investment. Improvements can include exterior and/or interior renovations. The initial legislation was due to expire in January 2001 but was extended through January 2006 through Ordinance 103. This credit is transferable; however, it can be revoked if the property is later converted in a way that does not meet historic standards. The credit applies only to buildings that are in a local or national historic district, or listed as a local or national landmark. The credit cannot be used in conjunction with any other local tax subsidy, except State and Federal historic tax credits unless the property is considered commercial and is located in an Enterprise Zone.

The Commission for Historical and Architectural Preservation (CHAP) administers the Historic Property Rehabilitation Tax Credit. In order to qualify for the tax credit, a property owner submits an application to CHAP, which includes a summary of the work to be done, cost estimates, plans, materials list and photographic documentation along with a $50 filing fee prior to starting the project (See Appendix B). CHAP must approve the application and the owner must have a Notice to Proceed before work can begin. Once the renovations are complete, CHAP staff conducts a final inspection, approves the application and submits it to the State Department of Assessments and Taxation (SDAT). In order to receive the credit, the owner is required to provide CHAP with copies of receipts and a notarized statement regarding project costs as well as providing SDAT with a copy of approved permits. As part of the application, owners are also asked to complete a survey similar to the one used for the Newly Constructed Dwellings Tax Credit. The survey asks for information regarding income, ownership status, property use and the role of the credit in the decision to undertake renovations.

Since the program's inception in 1996, CHAP has received a total of 288 applications, representing $42,108,673 in improvements. 256, or 89%, are residential projects. 110 projects (both residential and commercial) are complete, representing 38% of the applications received and $9,620,301 in approved tax credits. Applications were received from 26 historic districts and landmark designations. The greatest number of applications, 40, was received from Fells Point followed by Mount Vernon (28), Butcher's Hill (22) and Roland Park (21). Upton's Marble Hill, Northwood and Ten Hills submitted the fewest applications. This may be attributed to their recent historic designation status and the time required to plan renovations. The number of applications is expected to increase significantly with the recent historic designations of Guilford, Homeland, Cow Hill, Washingtonville, Lauraville, Stone Hill and Tuscany-Canterbury.

As part of this process, we interviewed property owners, selected by CHAP, who had used the Historic Property Rehabilitation Tax Credit. The application and review process as well as the technical assistance provided by the staff was considered excellent. There were some concerns about the process used by SDAT, which included sending a tax bill with the updated assessment followed by an adjusted bill that reflected the credit. All parties interviewed believed that the tax credit was important to encouraging improvements.

Two concerns about this tax credit repeatedly emerged during the interviews. First, historic districts with the highest participation rates were home to residents who had the financial capacity to satisfy the requirement that improvements represent 25% of the dwelling's total cash value. This supports the argument to combine tax credits with financial incentives to make them more readily available to middle and lower income neighborhoods. Higher rates of participation may also reflect community-based marketing efforts. Neighborhoods such as Charles Village, Mount Vernon, Roland Park and Bolton Hill have established associations and a leadership that has a high awareness of the tax credits. Higher participation neighborhoods also tend to attract residents that are either professionally or personally attracted to renovation projects. Finally, the effect of a steadily increasing market, particularly in waterfront areas such as Canton and Fells Point, is likely to have played a role in encouraging residents to invest in their properties.

A second concern was the difficulty in determining a property's eligibility. This may be remedied in the future by LBMC, which is developing a database that can be accessed by address to determine a property's eligibility.

The difficulty in determining a property's eligibility is part of a larger problem where the City's general lack of technology reduces the effectiveness of the program. For instance, the Collection Division has only recently installed a program that will automatically calculate the credit. Prior to the installation of this program, staff calculated the credit manually. It is not clear whether this program will be able to track the cumulative tax credit by property. Additionally, there are no connections between real estate listings for historic properties and "fixer uppers" and tax credit information. Neighborhood web sites do not include photographic testimonials that could encourage additional investment, and rarely provide general information on the tax credit programs.

Home Improvement Tax Credit

The Home Improvement Tax Credit became effective in January 1995 (Ordinance No. 234) and applies to properties that have been owner-occupied for a minimum of six months and which undergo exterior and interior improvements. Projects of any dollar amount may qualify, but the credit is limited to the value of the improvements that are below $100,000. This is a five-year tax credit that begins with a 100% credit against the increased value in the first year and decreases by increments of 20% through year five. The credit may be transferred if the property is sold.

Application is made to the Collection Division and includes a copy of building permits along with proof from SDAT that the increased assessment is due to the value derived from the improvements (See Appendix C). The application is approved by the Collection Division, which is also responsible for calculating the credit.

A total of 41 applications have been received for the Home Improvement Tax Credit, representing $52,768 in total credits. Credits ranged from $23 to $3,003 with an average credit of $1,287. 39 of the properties are located in South and Southeast Baltimore including Federal Hill, South Baltimore, Locust Point and Canton. Again, this indicates the role that a strong market can play in encouraging investment absent of other incentives. AB ASSOCIATES interviews with representatives from the Finance Department revealed that applications for the Home Improvement Tax Credit have increased since August 2001 to approximately six or seven per week.

In order to better determine what impact improvements can have on a neighborhood's value, AB ASSOCIATES conducted an informal survey. Using the SDAT Real Property Database, AB ASSOCIATES identified the assessed value and, if available, the sales prices for randomly selected properties that received the tax credit. Comparable information for the adjacent properties was reviewed along with one randomly selected property in the same block as the selected tax credit property.

Address	Base Value	Current Value (as of January 2000)	Sales Information	
Tax Credit			**Date**	**Price**
203 S. Chester Street	$143,180	$153,980	NA	NA
Comparable				
201 S. Chester Street	$57,960	$70,360	NA	NA
205 S. Chester Street	$51,780	$77,150	NA	NA
210 S. Chester Street	$91,460	$95,210	6/99	$125,000
Tax Credit				
1205 S. Hanover Street	$80,600	$116,050		$150,000
Comparable				
1203 S. Hanover Street	$85,660	$105,610	9/01	$229,000
1207 S. Hanover Street	$127,040	$119,350	NA	NA
1222 S. Hanover Street	$44,150	$67,780	7/99	$61,000
Tax Credit				
1510 Henry Street	$62,100	$128,570	6/98	$138,500
Comparable				
1508 Henry Street	$62,100	$79,320	NA	NA
1512 Henry Street	$62,790	$69,320	NA	NA
1500 Henry Street	$65,380	$79,860	NA	NA
Tax Credit				
422 Nottingham Road	$143,050	$160,450	12/98	$114,500
Comparable				
420 Nottingham Road	$132,480	$120,810	9/01	$95,000
424 Nottingham Road	$154,400	$151,890	NA	NA
415 Nottingham Road	$134,200	$128,450	2/99	$130,000
Tax Credit				
123 E. Clement Street	$138,000	$134,050	9/98	$140,000
Comparable				
121 E. Clement Street	$79,140	$87,940	NA	NA
125 E. Clement Street	$89,430	$98,650	11/00	$102,000
130 E. Clement Street	$55,150	$76,480	NA	NA

Although the sample size is too small to be conclusive**,** there appears to be some evidence to support the hypothesis that property values increase at a higher rate for improved properties than for unimproved properties. For instance, 420 Nottingham Avenue in Ten Hills was purchased in 2001 for $95,000. It is currently assessed at $120,810. These types of increases are most dramatic in neighborhoods that are on or near the waterfront. For instance, 1205 S. Hanover

Street in Federal Hill was purchased for $50,000 in 1993. Improvements for the most available assessment were listed as $113,000 for the base value and $104,050 for the current value. Further, it appears that many owners will risk over-improving in neighborhoods where the market demonstrates a potential to provide substantial returns on an investment.

The majority of suggestions regarding the Home Improvement Tax Credit involved incorporating them into a larger revitalization effort. For instance, this credit can be used in conjunction with the Newly Constructed Dwellings Tax Credit to encourage improvements that, in the end, will enhance the entire neighborhood. It was also suggested that this type of tax credit is most effective when it is packaged with a Healthy Neighborhoods model that provides low interest loans to targeted blocks to encourage investment. A related suggestion involved creating volume-based discount purchase programs and negotiating discounts with contractors based on the volume of work that could be provided. Additionally, the credit should be modified to aid homeowners who undertake substantial home improvements, but, due to factors such as location, do not experience an increase in their assessment.

Vacant Rehabilitated Dwellings Tax Credit

The Vacant Rehabilitated Dwellings Tax Credit (Ordinance No. 234) became effective in January 1994 and applies to buildings that include a maximum of four units, have been vacant or abandoned for a minimum of one year or have been owned by the City for a minimum of one year and are in need of substantial repair in order to comply with applicable City codes. In order to qualify for the credit, the building must be occupied as the owner’s principal residence. This is a five-year credit that begins with a 100% credit against the increased tax in the first year and decreases by increments of 20% through the fifth year. In order to receive the credit, an application needs to be filed by September 1 with the Finance Department and must then be re-filed annually. A vacant house notice, building permits, occupancy permits and abatement of vacant house notice must accompany the application. The Collection Division then calculates the credit. (See Appendix D)

Based on the reports provided by the Collection Division for the reporting period July 1998 through June 1999 and July 2000 through June 2001, only five properties have been approved for this tax credit, representing a total of $4,647 in tax credits. The lowest tax credit was $266 and the highest was $1,046, with an average tax credit amount of $701.

Unlike the Home Improvement Tax Credit, users of this credit are not clustered in any particular neighborhood. Although the percentage of use is small enough to be considered statistically insignificant, it is interesting to note that the credits were used in communities that represent a broader demographic profile than in other programs. To determine the impact that this type of renovation can have on a community, the same analysis was performed as with the Home Improvement Tax Credit.

Address	Base Value	Current Value	Sales Information	
Tax Credit			**Date**	**Price**
3624 Fairview	$100,950	$85,760	NA	NA
Comparable				
3622 Fairview	$89,000	$90,160	NA	NA
3626 Fairview	$20,250	$20,250	NA	NA
3601 Fairview	$73,860	$72,290	NA	NA
Tax Credit				
114 E. Randall	$235,530	$264,920	10/00	$274,500
Comparable				
112 E. Randall	$62,350	$73,310	NA	NA
116 E. Randall	$88,840	$85,690	8/00	$91,500
135 E. Randall	$47,920	$56,600	NA	NA

The Vacant Rehabilitated Dwellings Tax Credit was generally regarded as the least effective of the City's tax credit programs based on infrequent use and thus its inability to act as a catalyst for wholesale redevelopment in blighted and deteriorating neighborhoods. The tax credit's ineffectiveness was attributed to its lack of integration with grants and low interest loans. Several suggestions were offered to improve this program. The credit could be extended to developers and CDC's in targeted neighborhoods to encourage larger revitalization efforts. Reinstating the Dollar House program could facilitate acquisition. Another alternative suggested was to extend the credit to developers, but limit it to certain properties. In order to facilitate involvement by nonprofit organizations and small developers, it was suggested that recently passed legislation that allows a tax refund on historic properties be extended to vacant properties. The regulations for what is considered a "vacant" property should be reexamined to potentially include foreclosures and other properties that are, for all practical purposes vacant, but do not meet the current regulatory guidelines.

The Ordinance also presents some ambiguities. For instance, the Ordinance states that a building must undergo substantial rehabilitation, yet does not provide definitions, guidelines or minimum spending criteria for this regulation. A dwelling that is "vacant or abandoned for one year" meets the criteria for both the Newly Constructed Dwellings Tax Credit and the Vacant Rehabilitated Dwellings Tax Credit. This could prove to be confusing without the appropriate level of technical assistance to determine which program could be more beneficial to the owner. Those interviewed believed that, if having to choose between the two credits, the Newly Constructed Dwellings Tax Credit would be more beneficial in almost all cases.

Mayor O'Malley's Vacant House Initiative, in which he has dedicated the City to purchasing 5000 vacant properties, presents a unique opportunity to take advantage of the Vacant Rehabilitated Dwellings Tax Credit. The City could market the acquired properties in conjunction with the Vacant Rehabilitated Dwellings Tax Credit in order to present an appealing package to developers and CDC's as well as expand the tax credit to include a State income tax credit.

Waverly Stabilization Tax Credit

The Waverly Stabilization Tax Credit was part of a pilot program created by Senate Bill 599 in 1995. The program's intent was to test the effectiveness of tax credits as an incentive to boosting homeownership in certain neighborhoods in Baltimore City and County. Waverly was selected through a competitive process that was managed by HCD, while Hillendale was selected as Baltimore County's demonstration area.

The credit applies to certain properties designated by the neighborhoods and that were purchased between July 1, 1996 and June 30, 2002 when the program expires. The buyer receives a 40% credit against the property tax during the first five years, with a 5% reduction in years six through ten as well as a State income tax credit that is equal to the amount of the property tax credit. The buyer provides a signed settlement sheet with the application form (Appendix E) and is ineligible for other grants or subsidies from either nonprofit organizations or government agencies. The Finance Department certifies the credit on an annual basis.

The eligible area includes the area bounded by Ellerslie Avenue, Loch Raven Boulevard, Exeter Hall, Greenmount Avenue, 36th Street and McKewin Avenue. These boundaries represent two neighborhoods, Waverly and Better Waverly. There are approximately 1,850 single-family residences included within this boundary.

Between July 1, 1996 and September 1, 2000 there were a total of 464 sales within the Waverly Stabilization Tax Credit boundaries. 287 properties or 62% were sold to owner occupants, while 177 properties or 38% were sold to investors. Of the 287 owner occupied sales, 61 tax credits were approved, representing 21% of the total owner occupied sales. The 61 tax credits totaled $24,290 and ranged from $20 to $793. One reason for this low level of usage may be the number of properties that are sold by an investor to an owner neither of whom may be aware that they may be eligible for the tax credit.

All applicants were first time homebuyers who purchased homes with an average sales price of $47,000. Eleven of the applicants came from the Waverly area, 18 from other City neighborhoods and two resided in Baltimore County. Twenty buyers received assistance through the City's Settlement Expense Loan Program (SELP), which provides up to $5,000 to qualified first-time buyers within a ten-year amortization period.

During this same time period, Hillendale experienced a total of 343 sales. 97%, or 333 sales, were to owner occupants. 113 of the owner occupied sales (34%) were approved for the tax credit. The average sales price of $73,600 was 57% higher than the average sales price in Waverly. According to Patricia Hull, director of Neighborhood Housing Services (NHS Hillendale), when the tax credit program began, properties were on the market an average of six months. Now, they are on the market an average of only three to four months.

Three basic factors account for the differences between the Waverly and Hillendale programs: existing neighborhood stability, program administration and community cohesiveness. When the program was enacted in 1996, Hillendale was beginning to show signs of deterioration, but retained a strong homeownership base. The tax credit was sought as a means of jump-starting the market. Waverly was already experiencing a depressed housing market when selected, and therefore held a strong appeal to investors and absentee landlords. In addition, several other homeownership incentives were available to those purchasing in Hillendale, which may have contributed to the neighborhood's success.

The experience with the Waverly pilot program suggests that the credits are more effective if a neighborhood is showing early signs of disinvestment and if they are part of a larger program that offers a range of products. For example, NHS receives $50,000 from the State annually and offers several other homeownership incentives, in addition to regular follow-up with program participants.

GENERAL ISSUES REGARDING THE EFFECTIVENESS OF THE TAX CREDIT PROGRAMS

While opinions on the effectiveness of the specific tax programs varied, there was a general consensus that the City needed to revise its philosophy and approach towards tax credits. A general lack of marketing and administrative support was identified as two of the primary obstacles that prevented the tax credit programs from realizing their effectiveness as a revitalization tool, a promotional tool and an economic stimulus. The most repeated criticism was that the tax credit programs were not considered strategies used to realize a larger vision for Baltimore City. Subsequently, the techniques that make these types of programs successful were missing: linkages to a theme that would help the public identify with benefits these program provide, "low touch" techniques that help generate ongoing awareness, such as inserts in tax bills, or articles in consumer newsletters such as that published by BGE.

A lack of marketing was also attributed as a reason why tax credits do not play a stronger role in neighborhood revitalization efforts. Realtors are frequently unaware of the tax credits or their requirements, and due to space limitations, real estate listings rarely identify a property as tax credit eligible. Reaching the general public was also cited as a problem. In 1996, the City embarked on a $100,000 campaign that featured an enclosure in the property tax bills. However, statistics were not kept tracking the results of this mailing, nor was it reinforced by follow-up mailings, meetings or other types of written materials.

One marketing effort that received widespread approval is the Live Baltimore Marketing Center (LBMC) web site. This provides a summary of all tax credit programs and includes a contact name and number. Several respondents felt that Live Baltimore's role should be expanded to include developing a broader marketing strategy, more technical assistance and stronger management of the entire tax credit process. Similarly, the Mayor's Office, which is undertaking several comprehensive neighborhood revitalization programs such as the Main Streets program and the Healthy Neighborhoods Initiative, could take responsibility for the tax credit programs as a related tool to be used to stabilize Baltimore's communities.

A lack of standardized administrative and evaluation policies also contributed to the tax credits' ineffectiveness. This included a lack of regularly scheduled meetings between all of the parties that are involved in the tax credits to discuss their effectiveness or marketing strategies, annual reporting requirements and a central contact. A lack of customer service and technical assistance was also noted as an impediment to encouraging higher usage rages. Anecdotal evidence presented during the interviews suggested that there are concerns regarding customer service at the Collection Division of the Finance Department. For example, when AB ASSOCIATES contacted the Department for information about a tax credit application, obtaining correct information was extremely difficult and time consuming. This was substantiated by comments offered by developers who had attempted to obtain information about the Newly Constructed Dwellings Tax Credit and who felt they were given incorrect information and treated rudely. One way to resolve this situation is by expanding the information on

LBMC's web site to include Frequently Asked Questions and sample applications. Additionally, LBMC could be contracted as the primary contact for questions and assistance.

The tax credit programs also suffer from a lack of supporting financial incentives that could make their use more appealing. This is especially apparent in older neighborhoods that are beginning to show signs of deterioration, and whose homeowners lack the financial means necessary to undertake repairs. Throughout the interview process, there was ongoing discussion that based on the City's limited financial capabilities, this type of assistance might need to be limited by neighborhood condition or income. In addition to grants and loans, the Abell Foundation offers a program to help stabilize Patterson Park neighborhoods. Property owners that register with the Home Value Program receive a guarantee from the Abell Foundation that if their property is sold for less than its original price, the owner will receive the difference.

Homeowners enroll in the Program by having an appraisal of their house done by an appraiser selected by the Patterson Park CDC. Then, based on the value of the home, there is a sliding scale of annual payments, ranging from $150 to $225, in order to remain in the Program. Once a homeowner has participated in the Program for five years, if he or she ever tries to sell the house and cannot get at least the original appraisal value for it, the Program will pay the owner the difference.

There was also a sense that tax credit programs should play a stronger role in influencing the market and should perhaps be less available in areas where the market is strong, such as the waterfront. The tax credits are one of the few city-wide options at the City's disposal that build real estate values, are not restricted by income or other funding parameters and do not require participating in a competitive process. If the tax credits are selectively limited, they may actually have the reverse effect; while some neighborhoods are being strengthened, currently stable neighborhoods begin to deteriorate due to a lack of access to assistance. The continued use of tax credits in neighborhoods where the market is already strong is worthy of an ongoing debate.

The Vacant Rehabilitated Dwellings Tax Credit would be more effective if it were utilized on a large-scale basis. The credit should be marketed to developers and homebuilders as a new market for the creation of housing projects. For example, developers in Canton are working on 5-10 houses at a time. The credit could also be used as part of the Neighborhood Typology, in order to encourage projects of a larger scale in neighborhoods experiencing greater distress.

Discussions to expand the Vacant Rehabilitated Dwellings Tax Credit will need to take into account the problem that occurs when the market dictates sales prices that are lower than the rehabilitation costs. The Greater Baltimore Board of Realtors is attempting to address this problem by proposing a gap insurance product for lenders that would allow a house to sell at a higher price by guaranteeing the difference between a higher sales price and what the market might dictate. For instance, if a developer was able to increase a home's value to $100,000 through renovations, but the market only supported a $60,000 selling price, the insurance would guarantee the $40,000 difference to the lender in the event that the loan defaulted. This would allow a lender to make a loan above the appraised value and would be an important step to pushing the market above its current levels.

The Home Improvement Tax Credit would be more effective if it was combined with assistance for the actual repairs. For example, some cities allow similar credits to be combined with grants to undertake the physical improvements. Assistance mechanisms should be in place in order to prevent homeowners from taking out second mortgages on their homes. A companion program that provided assistance for the ongoing maintenance of homes, as opposed to a one-time project, should be considered as an additional way to stabilize values.

LESSONS LEARNED FROM OTHER CITIES

As part of this assessment, we investigated tax credit programs in over twenty-one cities. Seven offered tax credits exclusively, seven offered cash or grants exclusively and four offered a combination of tax credits and cash or grants. These are summarized in the attached table. (Appendix F)

Of the seven cities offering tax credits exclusively, four offered historic tax credits, one offered an affordable housing tax credit, one offered vacant housing tax credits, four offered home improvement tax credits and four offered other types of credits such as a senior citizens exemption or a police officer incentive.

One distinction between Baltimore's historic preservation tax credit and that offered in other jurisdictions appears to be the requirement that the Baltimore applicant contributes 25% of the cash value based on the assessed value of the home. Providence requires that owners spend a minimum of $2,000, while other cities require that the improvements exceed anywhere from 20% to 50% of the home's value. Although compiling this matrix did not entail analyzing usage rates, it is possible to infer based on interviews that minimal cash requirements supplemented by low interest loans result in higher success rates as well as to attract a broader range of participants.

Vacant house tax credits appear to have similar requirements to Baltimore with the exception of Washington, DC where mortgage assistance is made available to certain buyers who purchase foreclosed houses or properties that are in violation of the housing code.

Home improvement tax credits also appear to have similar requirements to Baltimore. Property owners are exempt from tax increases that result from the value of the improvements. To qualify for the credit, improvements generally fall between minimum ranges of $5,000 to $10,000. In Missouri, the credit is 25% or 35% of the rehab costs depending on the age of the house.

New construction tax credits vary between increases in real estate taxes that result from improvements to the land to a flat credit of 15% in Missouri. Additionally, Missouri requires that the land used for the development has been vacant for a minimum of two-years or includes a condemned structure.

Like Baltimore, the majority of cities offered property tax credits. Income tax credits, which can provide even greater benefits as they allow credits to reduce an individual's tax liability, appear to be far less used although federal legislation is in place to establish Mortgage Credit Certificate (MCC) programs. Established in the 1984 Tax Reform Act, the MCC allows first time homeowners or prior homeowners who have not been an owner occupant for the prior three years to claim a percentage of their mortgage as an income tax deduction. Applicants must meet income and price limits that are established by the IRS. The credit lasts the life of the mortgage and is generally limited to a first mortgage, although some jurisdictions have allowed the credit to be taken when refinancing. The amount of the credit ranges from 10 to 20% and is set by the local jurisdiction, which also has the option of setting a dollar ceiling. The credit is not transferable if the property is sold. If the owner sells within their first nine years of residency, they may be required to repay a portion of the credit. If the amount of the credit exceeds the amount of tax owed, the difference may be carried forward for a maximum of three years. Los Angeles, Chicago, Honolulu and Indianapolis offer MCC programs.

Five programs were selected as case studies**.** Information is based on in-depth interviews, however, the level of detail varied, as the analysis we received varied, since much of the statistical and demographic information was considered confidential.

The most important lesson drawn from this research is that Baltimore is not unique in its lack of a coordinated marketing strategy. This leads to a greater policy question about the role of marketing as a government function and whether it is more effective to contract this function to an outside resource. Another feature of most of the models reviewed is the lack of record keeping regarding the use and effectiveness of the programs. This makes future decisions regarding the programs extremely difficult.

Each of the cities we reviewed surpassed Baltimore in the level of information they were able to provide about their programs. Each city's main web site provided easily identifiable links to information about a tax credit program. Los Angeles has a 24-hour hotline that provides information and a contact name. Cleveland and Los Angeles have or will have interactive web sites that allow the user to type in an address and determine if a property is eligible for a credit. In Los Angeles, if a property is historic, this link also provides information about other financial resources that are available.

Many cities felt their tax credit programs were successful based on their ability to be combined with grants and loans. In some instances, this reduced the amount of the abatement to the actual cash spent by the property owner.

The case studies for Cleveland, Portland, Los Angeles, Missouri and Boston are described below:

CLEVELAND, OHIO

Residential Tax Abatement Program

Contact: Andrea Lewis, Manager of Residential Tax Abatement Program
216.664.3442

The City provides buyers with tax abatement of the improved value of new and rehabilitated homes for a term between 10 and 15 years.

Program Description

The Residential Tax Abatement program began in Cleveland in 1991 and is overseen by the State Department of Development. The tax abatement for new construction of a single-family home is 100% of the construction tax over 15 years, while the tax abatement for the rehabilitation (non-historic) of a one- to two-family home is 100% of the increase in property taxes resulting from the work over ten years. There is a rate scale for multi-family projects, based on location and number of units (the more units and the more distressed the area, the larger and longer the abatement). The abatement applies to new construction and rehabilitation of single- and multi-family dwellings. The abatement also applies to the conversion of commercial buildings into residential units. Rehabilitation of one- and two-family homes must be a minimum of $2,500. Rehabilitation of multi-unit buildings must represent a minimum investment of $15,000 per unit. The tax abatement is transferable if the property is sold. Historic rehabilitation costs must be 50% of the assessed value of the building. The developer is entitled to the abatement and usually passes the savings onto the buyer or renter through a reduced sales price or lower rent.

Results

The program is intended as a tool to attract new homeowners to Cleveland by reducing a buyer's monthly expense. The program manager believes the program has been extremely helpful in attracting new homeowners to the City by leveling the playing field of property taxes between urban dwellers and their suburban counterparts. She stated that there is quantitative evidence that the program has convinced people living in the suburbs to relocate to Cleveland. If homeowners move into a newly constructed home in which the developer took advantage of residential tax abatement, the new homeowner is liable for land taxes on the property, but not construction taxes, for 15 years. This saves homeowners a significant amount of money each year. The State Department of Development produces an annual report regarding the tax credit, but the information is not available. The program has also encouraged people living in the suburbs to move into the many conversion projects taking place downtown.

In 2001, the only year for which information was available, 579 certificates for residential tax abatement were issued. More detailed information was not available.

Lessons Learned

Two issues that reduce the Residential Tax Abatement program's effectiveness are a lack of coordination between departments and a lack of marketing. Cleveland has no marketing tools that provide technical assistance to the buyer. The program manager discusses the program with developers, nonprofits and other groups or individuals interested in building homes in the City and provides them with written materials. Unfortunately, this information is not necessarily relayed to the buyer, who is then unable to take advantage of the tax abatement. Additionally, some developers do not always explain properly the benefits of the tax abatement to potential homebuyers.

There is also a problem with the program's administration, stemming from regulatory language discrepancies between the State, County and City regarding assessments and abatements. According to the State of Ohio, tax abatement is given beginning the year after the project is completed. The City of Cleveland considers a project complete when a Certificate of Occupancy is issued. However, Cuyahoga County (in which Cleveland is located) assesses projects a year after a construction permit is issued. When a project is 40% complete, it is reassessed at full value. However, the abatement cannot go into effect unless a Certificate of Occupancy has been issued. Consequently, there are frequently periods of time when value is added to the property, but the abatement is not in effect. This becomes an issue if the developer is not aware of the differences in assessment policies. If the developer knows a project is going to take longer than 12 months, he can prepare for the temporary increase in taxes prior to the abatement. City managers of the program have met frequently with Cuyahoga County assessors over the last several months and the County Assessors have promised to be more careful this year in re-assessing "completed" projects.

Opportunities for Baltimore

This program is a potential model for a tax abatement program in Baltimore for new construction and vacant rehabilitation, based on the benefit provided to the developer, and the ability to level the playing field between the City and its surrounding counties by making housing projects feasible that may not have been without the abatement. The program is an incentive both for homeowners and for developers, so it revitalizes the City's aging housing stock as well as stimulating the production of new housing.

This type of credit is beneficial to the buyer, as it can be marketed in a way that reduces negative perceptions regarding property taxes. Developers are able to take advantage of the program for single-family or multi-unit projects, whether they are new construction or adaptive re-use.

Further information can be obtained from Cleveland about the program. Lengthy annual reports may be available, as well as a report done by a consultant about the impact of the program on the downtown housing market. The program manager was unwilling to provide the reports at the time of the interview.

MISSOURI

Neighborhood Preservation Act

Contact: Bwon Littlejohn, Program Administrator
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This act was passed in 1999 in order to encourage homeownership and housing reinvestment in designated areas of Kansas City and other parts of the State. The program may be used in designated "distressed communities" and in "Qualifying" and "Eligible" Areas. A "distressed community" is defined as either a Missouri municipality within a Metropolitan Statistical Area (MSA) which has a median household income of less than 70% of the median household income for the MSA, or a United States census block group or contiguous group of block groups within an MSA which has a population of at least 2500, each block group having a median household income of less than 70% of the median household income for the metropolitan area in Missouri. The definition includes municipalities not in an MSA with a median household income of less than 70% of the median household income for the non-metropolitan areas of Missouri. An "Eligible" Area is an area that has a median household income between 90% and 70% of the median household income for the MSA in which the census block group is located or, if located in a census block group in a non-metropolitan area, has a median household income between 90% and 70% of the median household income for the non-metropolitan areas in the state. A "Qualifying" Area is an MSA or non-metropolitan statistical area within a United States census block group which has a median household income of less than 70% of the median household income for the MSA or non-metropolitan statistical area, respectively, or which is located within a "distressed community." The individual homeowner's income is not an issue.

The program authorizes $16 million in income tax credits statewide ($8 million to "Qualifying" areas and $8 million to "Eligible" areas), on an annual basis, as incentives for residents to remodel or build new homes in designated areas. Tax credits may be carried back two years and carried forward five years. Tax credits must go to the homeowner, but the credits may be transferred, assigned or sold. Any rehabilitation or construction costs paid for with grants or forgivable loans cannot be included as part of the rehabilitation or construction costs for the program. This program may not be combined with other state or federal forgivable loans or tax credit programs with the exception of the Historic Preservation tax credit program.

Qualifying Areas

Substantial Rehabilitation

- Over 50-year-old home, owner-occupied or to be owner-occupied
- Cost of the rehab must be at least $10,000 and must exceed 50% of the home's cost basis
- Applies to both detached homes and owner-occupied units in multiple-unit buildings
- Credit is 35% of the rehab costs
- Maximum of $70,000 income tax credit per home

Substantial Rehabilitation with Historic Tax Credit

- Over 50-year-old home, owner-occupied or to be owner-occupied
- Cost of the rehab must be at least $10,000 and must exceed 50% of the home's cost basis
- Applies to both detached homes and owner-occupied units in multiple-unit buildings
- Home must be on the National Register or contributing resource to a National Register historic district
- Rehab must be performed in accordance with the standards of the State Historic Tax Credit
- Credit is 25% of the rehab costs, plus the lesser of 20% of rehab costs or $40,000. In other words, a total state tax credit of up to 45% can be obtained

Moderate Rehab

- Over 40-year-old home, owner-occupied or to be owner-occupied
- Cost of rehab must be at least $5000
- Applies to both detached homes and owner-occupied units in multiple-unit buildings
- Credit is 25% of rehab costs
- Maximum of $25,000 credit per home

Eligible Areas

Moderate Rehabilitation

- Over 40-year-old home, owner-occupied or to be owner-occupied
- Minimum of $10,000 in rehab costs
- Applies to both detached homes and owner-occupied units in multiple-unit buildings
- Credit is 25% of rehab costs
- Maximum of $25,000 tax credit per home

Program Description

This program went into effect January 1, 2000. The rehabilitation must improve the value of the house in order to qualify for the tax credit. Exterior and interior improvements qualify, but façade improvements and landscaping do not (i.e. full, necessary repainting of a house qualifies, but not repainting for aesthetic reasons). Appliance upgrades are ineligible, however furnace and air conditioning systems are eligible because they remain with the structure. Separate guidelines have been developed for historic and non-historic properties.

There is an application period that lasts from the beginning of September to the middle of November. There is currently debate among program administrators about extending the length of the application period. The project selection is done by lottery because there are not enough funds available for everyone applying for the program. The program is funded by the State and evaluated annually by the General Assembly. Due to budget constraints, the program will likely be receiving less money in the future.

This program may not be combined with other state or federal forgivable loans or tax credit programs with the exception of the State's Historic Preservation Tax Credit program. The tax credits are fully transferable if the property is sold. The credits are sometimes used as a selling point and passed onto a buyer through a reduced sales price. The Department of Revenue manages the program and determines how the abatement is applied to a property. Both developers and homeowners may apply for the credit. The credit may be carried two years back or five years forward, but an individual must carry the credit forward before he is permitted to carry it back.

Results

It is the Program Administrator's opinion that this is the best homeownership program the State has to offer, as it has the potential to provide the participants with the greatest level of benefits and is the most comprehensive of the State's homeownership programs.

The program administrator stated that much of the marketing effort concentrates on educating prospective users about the program. This program does not have a dedicated marketing budget; rather funds are allocated from general program expenses. The various departments that fund the program all have information and literature about the programs at their offices. In addition, staff works with developers and CDC's. Advertising is also done on the radio, television (local cable channels and talk shows) and in the newspaper. Staff also talks to groups of potential users, such as at community meetings. There is no separate marketing budget for the program. There is a website that allows the user to type in an address to determine if a property is in an Eligible Area or a Qualifying Area.

The program manager was not sure if any department maintained statistics regarding the program. In addition, as the program is relatively new, comprehensive data on the effects of the program on the areas in which it is used is not available.

Lessons Learned

The downside to the Neighborhood Preservation Act is the program's limited funding, which results in a lottery. In addition, many people believe they do not qualify for the program because it is a tax credit with income restrictions. Many potential buyers are retired and must convince developers to accept the credits in exchange for a reduced purchase price. For example, if a retired couple can receive a $10,000 credit, the couple must convince a developer to take the tax credit as part of the price, so the couple only pays $70,000 for an $80,000 house.

Opportunities for Baltimore

According to the Program Manager, the Neighborhood Preservation Act is effective as it addresses homeownership issues on a neighborhood-wide basis. This program was designed by Missouri in order to effect more widespread change than other tax credit programs, by basing credits on neighborhood characteristics, as opposed to applicant characteristics. This type of program is most applicable as an implementation strategy for the City's Neighborhood Typology.

LOS ANGELES, CALIFORNIA

Mills Act

Contact: Matthew Dillhoefer, Historical Properties Contracts Manager
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The Mills Act is a State Law that allows cities to enter into contracts with owners of historic properties to provide property tax relief in exchange for the continued preservation of the historic property. The Mills Act adjusts the property tax to reflect the actual use of the site, therefore offering significant tax reductions of approximately 50% for newly improved or recently purchased properties. Owner-occupied, single-family residences with a property tax assessment of $500,000 or less are eligible. Income-producing commercial properties (including apartment and industrial) valued at $1,500,000 or less also are eligible. The Cultural Heritage Commission may grant exemptions in certain cases. Properties located in the Downtown Historic Core or Hollywood Redevelopment District are exempt from the property value limits. To be eligible, a building must be listed in the National Register of Historic Places or be a contributing structure in a National Register Historic District. In addition, owners of City Historic-Cultural Monuments and buildings contributing to a City Historic Preservation Overlay Zone are eligible. Owners are required to follow the Secretary of the Interior's Standards for the Treatment of Historic Properties, but have no minimum or maximum spending standards. The minimum contract period is ten years and is renewed annually. The contract is executed between the local government and the property owner and is binding for all successive owners during the ten-year period.

<u>Program Description</u>

Los Angeles adopted the Mills Act in 1996. It allows an assessor to re-evaluate a property on an income basis rather than a market basis, which creates a new capitalization rate. As a result, property taxes are reduced approximately 40-50% on an annual basis for the life of the abatement. The tax abatement is for ten years, and the contract can be renewed annually. The tax abatement may be combined with other programs that provide loans or grants for rehabilitation. Participants in the program must allow for the periodic inspection of their homes in order to ensure the homes are being maintained properly.

<u>Results</u>

The program is particularly effective for single-family homes, but less so for multi-family or commercial properties. A single-family home will typically have its property taxes reduced by 50%, while a multi-family or commercial project may only be reduced by 30-40%, due to its income-producing capacity.

Currently, there are 117 properties utilizing the Mills Act. Of those, 75 have been re-assessed. The remaining 42 will be reassessed next year. Of the projects that have been reassessed, only six did not receive a reduction in their property taxes. Of that six, four of the property owners were not expecting a reduction. The low usage rate may be attributed to Proposition 13, which prohibits tax rates from exceeding 1% of their market value.

<u>Lessons Learned</u>

There is currently only one staff person handling marketing and implementation of the Mills Act. Marketing is done through a website, a hotline number and by doing presentations in neighborhoods applying for historic designation by the City. Outreach is done at the invitation of existing historic districts or other interested groups.

While the tax relief may be combined with other programs, individuals utilizing other programs are not necessarily informed about the Mills Act. A new website is under construction currently, which would allow users to type in the address of their historic property and find out what types of tax incentive, loan and grant programs they may be able to utilize.

Many property owners use the Mills Act not to get a property tax reduction for themselves, but to protect future owners. A California law (Proposition 13) protects houses purchased before 1978 from increases in property taxes. By utilizing the Mills Act, current owners of these properties can protect potential new owners from sudden increases in their property taxes (which would be incurred when a property built before 1978 is re-assessed upon sale). People have done this when the property was being passed down in the family or to be able to use it as a bargaining point in a regular sale. This practice is commonly referred to as “backdoor benefits.”

Los Angeles initially enacted the Mills Act as a way to revitalize the City's older housing stock of lesser value and to revitalize neighborhoods. Communities reaping the most benefits from the program are typically active ones that have sought out historic designation for their neighborhoods and are now able to use the programs that are a benefit of the designation. The Contracts Manager believes the program strengthens the values of the properties surrounding it because it sets a tone for the community.

The Cultural Affairs Department does keep data on the details of the program's use, but it is considered confidential.

Opportunities for Baltimore

Although with limited usage this program has been extremely effective in Los Angeles, particularly with single-family homes. The vast majority of homeowners who choose to participate in the program receive substantial reductions in their property taxes. This program is also designed to help entire neighborhoods, as properties typically are located in historic districts. These neighborhoods tend to be strong and well organized, as they needed to do so in order to apply for historic designation. This local leadership framework generally helps market the program to current and potential homeowners. This program is a strong incentive for both revitalizing Baltimore's aging housing stock and convincing people to remain in (or move to) the City instead of the surrounding counties, where property taxes are generally lower. This program allows individuals who might not be able to remain City homeowners as a result of an increase in property taxes to remain in the City. It also allows homeowners to provide incentives for potential buyers who otherwise might not be able to afford a home in the City as a result of high property taxes. In addition, it ensures the continued preservation of homes, as the incentive is for long-term maintenance as opposed to a one-time renovation. As in Cleveland, this program can be a strong tool for retaining and attracting residents to the City.

The primary benefit of this program is the assistance provided to individuals who intend to reside in their homes for at least five years and who care about their homes. The program helps distressed neighborhoods in particular, by removing blight and revitalizing aging housing stock. The program would be more effective and would be available to more individuals if it were paired with funds for initial rehabilitation. This program could be combined with the Home Improvement and Rehabilitation Tax Credits in order to be most effective. In addition, partnerships could be created with CDC's in order to encourage large redevelopment areas.

PORTLAND, OREGON

Single Family New Construction Property Tax Abatement

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This program exempts the value of a newly constructed, single-family housing unit from property taxes for ten years. Property owners are still obligated to pay taxes on the assessed value of the land and any appreciation to the value of the land and the newly constructed unit.

Program Description

This program began in 1977 as a tax abatement program for rental construction, but a similar tax abatement program for new housing construction was created in 1992. Currently, this program is Portland's most popular tax abatement program. The original objective of the program was to spur development in the City's "Distressed Areas" (neighborhoods calculated by percentage of Median Family Income), but, due to changes in Portland's housing market, the program's focus is now being changed to encourage more affordable housing. The abatement is limited to Distressed Areas and is not citywide. This program provides 100% abatement on the taxes on the structure for ten years while the homeowner must continue to pay taxes on the land. Currently, there is no requirement that the property be owner-occupied. The price limit on the house is 100% of the Median Sales Price of the Distressed Area. The program may be combined with other programs, which occurs frequently.

The program is not marketed currently. Awareness spreads by word of mouth among developers. As part of the evaluation of the program, a marketing strategy is being developed. Developers, realtors and homeowners may apply for the abatement, but it is typically developers who file the application.

There are approximately 1800 properties enrolled in the program. Approximately 250 properties took advantage of the program in 2001. In 1992, the first year of the program, only 26 properties took advantage of the tax abatement. This increase in participation has occurred without any substantial marketing.

Results

The abatement period for the first participants in the program is ending soon and most homeowner's can expect an increase in property taxes of between $1,000 and $2,000. Coinciding with the end of the abatement period, the Portland City Council reviewed the program and decided on the following changes, which will become effective in January 2003. The abatement period will continue for 10 years, however the owner will not be required to be a first time buyer. Income limits will be established at 100% of the Median Family Income of $57,200. These limits will be increased for families with more than four individuals.

Lessons Learned

While the program was effective in accomplishing its original objective, it has become necessary to shift the focus of the program in order to emphasize the creation of affordable housing opportunities for low- and middle-income buyers. In addition, the lack of a schedule for phase-in of property taxes means that participants experience a sudden increase in their property taxes after ten years. Finally, the lack of a cohesive marketing strategy on the part of the Development Commission means that prospective users of the program occasionally obtain misinformation about the program from private sources.

Opportunities for Baltimore

Portland has found this to be an effective tool in the stimulation of new housing construction in the City. Baltimore could use this program to strengthen the Newly Constructed Dwellings Tax Credit and further level the playing field by extending the tax credit period to ten years. A strong marketing program targeted to organizations such as the Homebuilders' Association and the Greater Baltimore Board of Realtors would be essential to developing the critical mass necessary to realize success.

BOSTON, MASSACHUSETTS

Homeworks

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Program Description

Homeworks was established in 1992 by the City of Boston Department of Neighborhood Development (DND) to promote rehabilitation of historic and non-historic properties and to encourage the renovation of deteriorating dwellings. The Homeworks program consists of four programs:

Homeworks. This program is intended to help homeowners make affordable repairs. Homeowners are eligible for a grant up to $3,000 ($4,000 for exterior painting) that is used to cover one-third of the cost of total home improvements. The remaining two-thirds must be supplied by another source, such as the homeowner or a loan from another source. Participants are required to be the owner-occupant of a one- to four-bedroom house or a residential condominium and must meet income restrictions of $45,000 or less for one individual and $65,000 or less for two or more individuals.

Homeworks Plus. This program provides discount loans to homeowners for exterior repairs that will have a visible impact on a neighborhood. The applicant must be the owner-occupant of a one- to four-unit property in the city of Boston, with an income of $55,000 or less for a single person and $85,000 or less as a family. The maximum loan amount is $5,000 at 3% interest rate over a three-year term. The regulations establish a minimum investment of $2,000 and a maximum investment of $20,000. The loan can over up to 50% of the total cost and requires a 1:1 match, which can include savings, loans or gifts. The applicant is required to sign a Terms and Conditions Agreement which guarantees using the home as the primary residence for the term of the loan. The City of Boston records the mortgage when granting the loan and discharges the mortgage when the loan is paid off.

Historic Homeworks. This program provides grants to help homeowners make historically appropriate exterior and interior improvements. The applicant must be the owner-occupant of a one- to five-unit house in the City of Boston that is at least 50 years old, with an income of $55,000 or less as a single person and $85,000 or less as a family. The maximum grant amount is $7,500 and can cover up to 50% of the rehabilitation costs. Rehabilitation costs must be a minimum of $2,000 and should not exceed $35,000. The loan requires a 1:1

match, which can include savings loans or grants. The grant is repaid only if the home is sold or rented within seven years. The applicant is required to sign a Terms and Conditions Agreement which guarantees using the home as the primary residence for the term of the loan. The City of Boston records the mortgage when granting the loan and discharges the mortgage when the loan is paid off.

Purchase/Rehab Option. This program provides grants of up to $5,000 to assist homeowners in purchasing homes that may require substantial repairs. Grants can match up to 50% of the total rehabilitation cost. This grant may be combined with any other purchase or rehab mortgage and requires that the homeowner attend a DND-sponsored home buying class and work with a DND-approved rehab specialist who provides technical assistance with securing contractors and ensuring that work is completed in a timely and appropriate fashion. This program applies to one to four-bedroom homes and residential condominiums and includes the following income restrictions: one individual, $58,800; two individuals $67,200; three individuals, $75,600; four individuals, $84,000; five individuals, $90,720; and, six individuals, $97,400.

Results

According to the program manager, this has been a very successful program, although she was unable to provide supporting quantitative information. Based on her anecdotal information, several neighborhoods have seen their property values rise, and a number of dilapidated houses have been brought up to code.

Program success is also evident in a 60% approval rate for applicants for the four programs, resulting in 1,777 grants and 36 loans totaling $6 million. $5,771,504 of this total has been repaid in 2001 and less than 1% of the loans have been paid back due to an applicant relocating. There has been only one recorded default on a loan, which occurred due to an individual's declaration of bankruptcy. The average grant amounts for the individual programs are as follows:

Homeworks: $2,700
Homeworks Plus: $4,500
Historic Homeworks: $6,500
Purchase/Rehab Option: $5,000

The department develops a marketing plan every fiscal year in order to ensure that the program's objectives are met. Direct mailings are sent to homes in neighborhoods where the program is targeted (such as Historic Homeworks mailings being sent to homeowners in historic districts) and ads are placed in local newspapers during the spring and fall application periods. In addition, the department conducts seminars and workshops in various communities. The department contacts neighborhood organizations and locations such as local libraries and inquires about conducting a workshop, as opposed to being invited by any particular group.

When work is being performed on a home receiving one of the four Homeworks grants, the City places a sign on the property that reads "Getting the job done" and includes information about whom to contact for details about the program. The department does this in order to assist the marketing effort in neighborhoods already taking advantage of the program and to send a message that people are investing in their community.

Lessons Learned

This program is extremely popular in Boston and has a high user success rate. In addition, the program helps market itself through signage on participating projects. The success of the program may also be attributed to an organized, proactive marketing effort.

Opportunities for Baltimore

This program demonstrates the importance of combining grants and tax incentives to help homeowners make the most effective use of tax credit programs. Homeworks' marketing strategy, which includes publicizing a homeowner's investment to encourage additional investment, demonstrates the importance of visibility and the effectiveness of an ongoing publicity effort.

RECOMMENDATIONS

This report set out to answer the question: Do the City's tax credit programs fully promote and stimulate homeownership? Simply put, the answer is no. This should not be attributed to the tax credits themselves, but rather to two factors: inconsistent and haphazard marketing efforts and a lack of uniform reporting requirements and accountability standards.

Remedying these problems will require changes in the way the City thinks about the value of tax credits, their use as a development tool, how they are packaged and their ability to be more broadly understood and utilized by a variety of constituencies. The recommendations that follow are organized around the major issues that were revealed during our analysis and interviews. Several represent a compilation of ideas; others are ideas to improve a specific aspect of a program.

ADMINISTRATIVE

1. **Use the continuation of the Newly Constructed Dwellings Tax Credit to close the gap between City and County tax disparities**. House Bill 125 extends the Newly Constructed Dwellings Tax Credit through June 2005. This presents the City and its partners with an ideal opportunity to develop a strategy that integrates the Mayor's Vacant House Initiative, provides extensive outreach to developers and complements efforts underway by existing organizations.

2. **Introduce uniform reporting requirements for all of the tax credit programs**. Currently, only the Newly Constructed Dwellings Tax Credit legislation includes an annual reporting requirement. The City should immediately require an annual report for each of the tax credit programs. At a minimum, these requirements should include:

   - number of credits approved
   - annual and cumulative value of the credit
   - impact on surrounding residential values

   As part of this process, the reporting requirements for the Newly Constructed Dwelling Tax Credit should be revised to include average and median sales prices. This will provide a more accurate picture of the credit's effectiveness. In addition, data should be collected to determine how the use of tax credits affects values in surrounding areas and what other types of investment results from the tax credits.

3. **Reassign the reporting on tax credit usage**. Legislation should be amended to transfer the reporting function to an agency that may be able to present a more balanced look at the tax credits, including their long-term benefits and their effect on stimulating spin-off development.

4. **Provide one central contact for the City.** In conjunction with strengthening LBMC's role, the City should designate one agency that acts as a liaison with LBMC, the general public and for coordinating efforts between those agencies that are involved with the tax credit.

5. **Use Citistat to map locations where the tax credits are used.** One of the difficulties in determining the tax credit programs' effectiveness is the lack of visual tools, such as maps, that make it easier to determine where tax credits are used, if there is a clustering of applications that may have potential marketing implications or if there are higher rates of usage due to other incentives. The City should use its Citistat capabilities to map this information on a regular basis and allow it to become the foundation for developing and evaluating marketing strategies.

6. **Link historic properties to computerized mapping systems.** The database being developed by LBMC should be integrated with the City's GIS system, LBMC's existing neighborhood maps and other computerized mapping systems. Ultimately, this effort should be expanded to expand SDAT's link with Maryland Regional Information System (MRIS) to include Baltimore City properties that will result in an integrated database in the form of a MRIS, which includes regional real estate listings. This is a long term project that will require coordinating with SDAT, Maryland Historical Trust and MRIS and most important the identification of a central contact that can be responsible for coordinating and planning how these databases will be linked and the types of information that should be included. In addition to identifying location, maps should link to neighborhoods, information about schools and transportation, permitting requirements and resources such as contractors and architects.

7. **Coordinate public and private involvement.** City, State and private agencies should, at a minimum, meet annually to review their experiences with tax credit incentives, including marketing expectations, customer service and improving usage.

8. **Expand the Live Baltimore Marketing Center's role.** LBMC's role could be expanded so that it becomes the primary contact and technical assistance provider for all of the tax credit programs. Additional activities could include: working with City and private agencies to develop a comprehensive and integrated marketing strategy, organizing workshops for realtors, developers, homebuyers, community associations and homeowners, contacting realtors on a regular basis to let them know which of their listings are tax credit eligible, providing more detailed web pages to include sample forms, examples of how a tax credit is applied against a tax bill and financial resources, technical assistance in completing an application and compiling required documentation. This would allow LBMC to act as the central contact for the City for all programs. LBMC could also be responsible for implementing an evaluation process that included a quantitative analysis, user surveys and inter-agency reviews.

9. **Evaluate income tax credits as both an alternative and a supplement to property tax credits.** One of the Waverly Stabilization Tax Credit's stronger features was its use of the State income tax that equaled the property tax. If marketed and packaged properly, income tax credits can be an especially strong incentive to revitalizing and increasing homeownership in targeted neighborhoods.

PACKAGING & PRODUCT DEVELOPMENT

1. **Combine tax credits with cash incentives to increase their effectiveness in selected neighborhoods.** Neighborhoods where tax credits could have a significant impact are believed to be the ones that have the lowest participation rates. This includes largely outer city neighborhoods such as Hamilton, Greektown and Forest Park. One reason for low participation rates may be a homeowner's lack of access to cash. By combining tax credits with low interest loans or grants that can be forgiven and guaranteeing the property's assessed value based on the model developed by the Patterson Park Neighborhoods Initiative, tax credits can be more effective in achieving their original goal of stabilizing and increasing property values. It will be important that this type of product is targeted to neighborhoods where there can be a demonstrated impact and should also include historic neighborhoods to help residents meet the 25% cash requirement. Criteria used to determine neighborhoods could include sales values, assessments, community association structure and permit data.

2. **Encourage wholesale improvements.** Tax credits, such as the Home Improvement Tax Credit, have the greatest neighborhood impact when used on a wholesale basis. One way to encourage blocks to undertake this type of improvement is by negotiating discounts with suppliers in return for volume order.

3. **Incorporate tax credits as part of the City's neighborhood typology efforts.** The Planning Department is preparing a neighborhood typology, based on "Plan Baltimore," the City's comprehensive plan that classifies neighborhoods into four areas based on their level of stability: preservation areas, stabilization areas, reinvestment areas and redevelopment areas. The goal of the typology is to allocate resources more effectively. Tax credits should be included in the resource pool and further enhanced with grants and loans.

4. **Develop a compendium of resources.** One deterrent to using the tax credits is identifying the resources required to undertake improvements. Homeowners that might be encouraged to undertake improvements or renovate a vacant dwelling frequently experience uncertainty in selecting architects and contractors. Developing a program that gives certain architects and contractors preferred status in exchange for discounted rates could help alleviate this uncertainty by providing a known and reputable pool of service providers.

5. **Provide worksheets demonstrating how credits positively effect a tax bill.** As part of a larger marketing effort, worksheets should be available that demonstrate how each of the tax credits impact a tax bill. This could be made available on-line to help potential users calculate the value of their credits.

PROMOTIONS, PUBLICITY AND AWARENESS

1. **Make information consistent and uniform.** Information that is available on the tax credit programs is not uniform. For instance, important regulations, such as an annual application requirement for the Rehabilitated Vacant Dwelling Tax Credit is not listed on the LBMC website. Instead, the user is referred to the City's Homeownership Institute for additional information. Consistently including all regulations reduced misperceptions regarding program benefits in addition to meeting most individuals' needs to receive information in an efficient fashion.

2. **Distribute information more broadly.** Reports and other information regarding tax credits should be shared with all those involved in its marketing or administration, in both the public and private sector. This information should also be posted on the City and LBMC's web sites. In addition, a brochure rack should be part of the redesign of the permit office into a one-stop shop for homeownership assistance information.

3. **Incorporate survey efforts of LBMC and the Finance Department.** The Finance Department conducts an annual survey of recipients only of the Newly Constructed Dwellings Tax Credit. LBMC conducts a Follow-up Survey of Home-Buying Fair and Trolley Tour participants. Surveys should be modified to include uniform demographic questions to provide more consistent information regarding actual and potential homebuyers. LBMC should consider including questions to determine a prospective buyer's awareness of the tax credits and their interest in obtaining additional information or assistance. The Finance Department should also consider adding questions to determine how a purchaser learned about a tax credit as well as other incentives that might be available.

4. **Make applications available online.** All applications should be available on the Internet. This has the potential to increase usage rates by making information more accessible.

5. **Work with the State Department of Assessments and Taxation to expand general awareness of the tax credits.** The State's real property database should be integrated with City systems to more easily identify eligible historic tax credit properties as well as those properties that are currently receiving a credit.

6. **Work with the Greater Baltimore Board of Realtors to develop an ongoing outreach strategy with the real estate community.** Examples could include:

- notification of members when a new historic district is approved
- notification of grant and loan opportunities that could be combined with credits
- contacting individual realtors to let them know which of their listings are tax credit eligible
- work with the Maryland Regional Information Systems (MRIS) to include tax credit eligibility on historic properties and with the media and real estate companies to structure advertisements in a way that allows tax credits to be used in their advertising strategies

7. **Work with the Home Builders Association to develop an outreach strategy.** In addition to traditional techniques such as a newsletter column and e-mail alerts, a special effort should be made to encourage developers to invest in Baltimore City, such as a repeat of the recently sponsored HCD tour of development opportunities.

8. **Combine development and tax credit opportunities.** This could include a report of the recently sponsored HCD tour with an emphasis on neighborhoods with high rates of deteriorating or vacant housing.

PLANNING

1. **Incorporate tax credits as part of a larger marketing strategy.** Tax credits should be an important part of an overall strategy that focuses on attracting and retaining homeowners, attracting new developers and stabilizing existing neighborhoods.

In addition to the above, the following are recommendations related to the specific programs:

REHABILITATED VACANT DWELLINGS TAX CREDIT

1. **Amend the Rehabilitated Vacant Dwellings Tax Credit to include developers and CDC's.** This tax credit should be the centerpiece of efforts to encourage wholesale revitalization for ownership and market rate rental efforts. A modified tax credit would ideally offer two components. Developers would be entitled to a State income tax credit that could be used to offset what are frequently higher development costs. Homebuyers would be entitled to a property tax abatement to help develop a market in what are traditionally underserved or overlooked areas. This type of amendment would work best if incorporated into a larger incentive package that addressed issues associated with title clearance and parcel assemblage. Additionally, CDC's should be entitled to file any unused portion of the credit for a cash refund, similar to the historic tax credit. In order to further stimulate development, this extended tax credit could apply to targeted areas where the Administration is interested in fostering development.

2. **Extend the duration of the tax credit.** The costs associated with significant rehabilitation are generally so high that extending the length of the tax credit may make more projects feasible for a wider variety of homeowners.

3. **Repeal the regulation requiring that an application be filed annually.** Requiring that an application be filed annually in order to receive the Rehabilitated Vacant Dwellings Tax Credit could be a deterrent to encouraging use of the program. Additionally, it is likely that recipients do not receive the full benefit of the tax credit, due to missing the application deadline.

NEWLY CONSTRUCTED DWELLINGS TAX CREDIT

1. **Combine the Newly Constructed Dwellings Tax Credit with focused revitalization efforts.** This should include a partnership between the developer, community associations and City and State agencies so that adjacent properties in need of improvement are undertaken at the same time. Similarly, this strategy should also address quality of life issues such as neighborhood planning that impact a purchasing decision and how the community is perceived.

2. **Provide a more detailed analysis of using this tax credit with subsidized housing.** One of the conclusions drawn by the Finance Department's Annual Summary was that a high percentage of recipients fell into the category of low- and moderate-income buyers. Homes that were purchased were already receiving substantial public subsidies, thereby offsetting tax benefits. A more detailed analysis should be provided that compares the level of public subsidy tax credit against the tax benefits. The methodology should also evaluate tax benefits received with subsidies against the benefits received if the development were not built. The evaluation should address the changes in property values in the area in order to determine if tax credit usage had an effect. The Department should also evaluate the probable condition of the area without the project in order to compare it to the state of the neighborhood once the project has been undertaken and/or completed.

3. **Evaluate extending the tax credit period.** Portland and Cleveland have experienced considerable success with their tax credit programs by allowing a ten-year abatement period. City officials should be encouraged to evaluate the benefits of extending the Newly Constructed Dwellings Tax Credit to a ten-year period as a way to further equalize the discrepancies between City and County taxes.

HISTORIC PROPERTY REHABILITATION TAX CREDIT

1. **Provide low interest loans to encourage greater use of the Historic Property Rehabilitation Tax Credit in less affluent neighborhoods.** During the interviews,

it was noted that historic neighborhoods with a less affluent population were less likely to take advantage of this tax credit based on residents' inability to meet the requirement that the rehabilitation cost meet or exceed 25% of the property's value. By offering low interest loans, reduced rates on contractors and other incentives, it is likely that participation rates in these neighborhoods could be increased and the housing stock would be preserved. In addition, CHAP could administer a loan program designed to maintain homes and stabilize housing values.

2. **Restructure requirements so the tax credit is granted when values do not increase.** One deterrent to using the tax credit is that it only becomes eligible if there is an increase in a property's assessment. This may discourage homeowners who live in neighborhoods where property values are flat or depressed.

3. **Provide trended data.** CHAP currently provides annual data on the number of applications that have been received, the value of the improvements and the value of the tax credit. Trended data would provide a more effective analysis of where the program is being used and its fiscal impact. Additional useful information could include assessment values and resale prices where appropriate.

HOME IMPROVEMENT TAX CREDIT

1. **Integrate the tax credit as part of a broader financial incentive program.** As with the Historic Property Rehabilitation Tax Credit, the Home Improvement Tax Credit is less likely to be used where it could have the greatest impact, namely neighborhoods that are in varying stages of deterioration. By including the tax credits as part of a comprehensive financial package, and by providing resources such as contracting and architectural resources, it is likely that these neighborhoods will experience increased property values and rising homeownership rates.

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